

**From the Banking Regulation and Supervision Agency:**

**THE COMMUNIQUÉ ON THE CALCULATION OF RISK WEIGHTED  
EXPOSURES RELATED TO SECURITISATION**

(Published in the Official Gazette dated October 23, 2015, Nr 29511)

**SECTION ONE  
Introductory Provisions**

**Part One  
Purpose and Scope, Legal Basis and Definitions**

**Purpose and scope**

**ARTICLE 1-** (1) The purpose of this Communiqué is to set down the procedures and principles for calculating risk weighted exposures that are arisen from banks' securitisation positions.

**Legal Basis**

**ARTICLE 2-** (1) This Communiqué is based on Articles 43, 45, 47 and 93 of Banking Law Nr. 5411 dated October 19, 2005 and Article 7 of the Regulation on Measurement and Assessment of Capital Adequacy of Banks.

**Definitions and abbreviations**

**Article 3 –** (1) The following terms and expressions used in this Communiqué shall have the meanings expressly designated to them below: a) Mezzanine securitisation positions: Securitisation positions to which a risk weight lower than 1 250 % applies and that are more junior than the most senior position in a securitisation and more junior than any securitisation position to which credit quality step 1 is assigned,

b) Bank: Banks defined in Article 3 of Law,

c) First loss tranche: In a securitisation, first tranche which bears losses incurred on the securitised positions and thereby provides protection to higher ranking tranches,

ç) Unrated position: A securitisation position which does not have a credit assessment given by an eligible credit rating agency,

d) Rated position: A securitisation position which has a credit assessment given by a eligible credit rating agency,

e) Early amortisation provision: A provision in a contract of a securitisation of revolving exposures or a revolving securitisation which requires, on the occurrence of defined events, the securities issued to be redeemed before the originally stated maturity,

f) Tranche: Tranche defined in Article 3 of the Regulation,

g) Asset-backed commercial paper programme: A securitisation in which the securities issued predominantly take the form of commercial paper with an original maturity of one year or less that is backed by exposures held in a bankruptcy-remote, special purpose entity,

ğ) Unfunded credit protection: Unfunded credit protection defined in Article 3 of the Regulation,

h) Funded credit protection: Funded credit protection defined in Article 3 of the Regulation,

ı) Traditional securitisation: Transfer of ownership of the underlying exposures from the originator bank directly or through sub-participation to a securitisation special purpose

entity which issues securities whereas payments to the securities issued are not obligation of the originator bank,

i) Excess spread: Net income after deducting certificate interest, costs, and other similar expenses from interest, fee, and other income received by the securitisation special purpose entity,

j) Law: Banking Law no. 5411,

k) Credit Rating Agency (CRA): Credit rating agency defined in Article 3 of the Regulation,

l) Credit enhancement: A contractual arrangement in which the bank provides some degree of added protection to other parties of the securitisation by retaining or assuming a securitisation position,

m) Credit risk mitigation: Credit risk mitigation defined in Article 3 of the Regulation,

n) Board: Board of Banking Regulation and Supervision Agency,

o) Agency: Banking Regulation and Supervision Agency,

ö) Liquidity facility: A commitment arising from a contractual agreement to provide funding to ensure timeliness of cash flows to investors,

p) Securitisation: Securitisation defined in Article 3 of the Regulation,

r) Clean-up call option: A clean-up call option is an option that permits the originator bank to call securitisation positions before all of the underlying exposures or securitisation positions have been repaid,

s) Originator bank: Originator bank defined in Article 3 of the Regulation,

ş) Securitisation position: Securitisation exposure defined in Article 3 of the Regulation,

t) Securitisation special purpose entity (SSPE): Securitisation special purpose entity defined in Article 3 of the Regulation,

u) Own funds: Own funds to be calculated pursuant to procedures and principles set forth in the Regulation on Own Funds of Banks which is published in the Official Gazette dated 5/9/2013 and Nr:28756,

ü) Revolving exposure: Exposures whereby customers' outstanding balances are permitted to fluctuate based on their decisions to borrow and repay, up to an agreed limit,

v) Revolving securitisation: Securitisations where the securitisation structure itself revolves by exposures being added to or removed from the pool of exposures irrespective of whether the exposures revolve or not,

y) Synthetic securitisation: A securitisation where credit risk is transferred in whole or in part by the use of credit derivatives or guarantees,

z) Sponsor bank: Sponsor bank defined in Article 3 of the Regulation,

aa) Re-securitisation: Re-securitisation defined in Article 3 of the Regulation,

bb) Re-securitisation position: Re-securitisation position defined in Article 3 of the Regulation,

cc) Regulation: Regulation on Measurement and Evaluation of Capital Adequacy of Banks.

## **SECTION TWO**

### **Principles on Securitisation**

#### **Part One**

#### **General Provisions**

##### **General principles of the calculation of risk-weighted exposure**

**Article 4-** (1) Risk-weighted exposure amount of securitisation positions are calculated by application of relevant risk weights to exposure amount within the frame of procedures and principles set forth in this Communiqué. Risk weight regarding a transaction is determined according to this Communiqué by considering economic substance rather than legal form. Since securitisations may be structured in different ways, economic substance rather than legal form of securitisation positions are considered in the calculation risk-weighted exposures. The provision of this Communiqués are applied to structures that have features common to traditional and synthetic securitisation as well.

(2) In determination of securitisation positions' risk weights, only the ratings assigned by eligible CRAs authorized by the Board are taken into consideration. In the calculation of risk-weighted exposure amounts, banks shall use the credit ratings consistently and in accordance with the provisions of Section One of Part Three. Credit ratings shall not be used selectively in such manner to be interpreted only in favor.

(3) In securitisation, an exposure to each tranche shall be considered as a separate position. A bank other than the originator bank provides credit protection to a securitisation shall calculate risk-weighted exposure amount as if it made investment in the position to which they provide protection in that securitisation. It is considered that banks that provide protection to an unrated credit enhancement as if it provide that credit enhancement.

(4) Underlying exposures may include but are not restricted to the following: loans, commitments, asset-backed securities, mortgage-backed securities, corporate bonds, equity securities, and similar assets. The underlying pool may include one or more exposures.

(5) Securitisation exposures may include but are not restricted to the following: asset-backed securities, mortgage-backed securities, credit enhancements, liquidity facility, credit derivatives, interest rate or currency swaps. Accounts such as cash collateral accounts recorded as an asset by the originator bank shall also be treated as securitisation positions. Repurchased securitisation positions shall be treated as retained securitisation positions. Positions that include one or more re-securitisation positions are considered re-securitisation positions.

(6) The risk-weighted exposure amount of securitisation positions shall be included in the bank's risk-weighted exposure amounts to be calculated pursuant to Article 4 of the Regulation.

##### **General principles on credit risk transfer**

**Article 5-**(1) In traditional securitisations, originator banks, may exclude the underlying exposures from the calculations of risk-weighted exposure amount, if significant credit risk is transferred to third parties pursuant to Article 7 or if they applies a 1 250 % risk weight to all securitisation positions in this securitisation.

(2) In synthetic securitisations, originator banks may calculate risk-weighted exposure amounts for underlying exposures in accordance with Article 10 if significant credit risk has been transferred to third parties either through funded or unfunded credit protection pursuant to article 8 or if they apply 1 250 % risk weight to all securitisation positions in this securitisation.

(3) Originator banks shall calculate risk-weighted exposure amounts for securitisation positions they retain within the frame of the provisions of this Communiqué.

(4) In the case of points (1) or (2) are not applied, risk-weighted exposure amount for securitisation positions are not calculated and underlying exposures are treated as if they are not securitised and included in the calculation of risk weighted exposure amount.

### **Banks' obligations related to implicit support**

**Article 6-**(1) In a securitisation, providing support in excess of predetermined contractual obligation with a view to reducing potential or actual losses to investors is considered as implicit support. The purchase of deteriorating credit risk exposures from the underlying pool, the purchase of underlying exposures at above market price or an increase in the first loss position according to the deterioration of the underlying exposures are considered as implicit support.

(2) Banks shall not provide implicit support to the securitisation.

(3) Banks that breach point 2 have to hold capital as if related securitisation positions had not been securitised. The Agency may require banks to take additional appropriate measures if it is found implicit support are provided more than one occasion.

(4) Banks provided implicit support to the securitisation shall disclose publicly this support with it's impacts on their own funds.

## **PART TWO**

### **Minimum Conditions of Recognition of Transfer of Significant Credit Risk and of Calculation of Risk-Weighted Exposure Amounts for Underlying Exposures**

#### **Minimum conditions on recognition of transfer of significant credit risk in traditional securitisation**

**Article 7-** (1) Except where the Agency believes that a reduction in risk-weighted exposure amount of the originator bank cannot be explained by transfer of credit risk to third parties, in addition to the provisions of third paragraph, upon occurrence of either of the following events, significant credit risk is deemed to have been transferred to third parties:

a) The risk-weighted exposure amounts of the mezzanine securitisation positions held by the originator bank in this traditional securitisation do not exceed 50 % of the risk weighted exposure amounts of all mezzanine securitisation positions existing in this securitisation,

b) In a traditional securitisation where there are no mezzanine securitisation positions, if the originator bank can demonstrates that the exposure value of the securitisation positions that would be subject to a 1 250 % risk weight exceeds a reasoned estimate of the expected loss on the securitised exposures by a substantial margin and does not hold more than 20 % of the exposure values of the securitisation positions that would be subject to a 1 250 % risk weight.

(2) In the cases where point 1 is not applied, if the Agency believes that the reduction in capital requirement of the originator bank can be explained by the securitisation, in addition to the provisions of third paragraph, upon occurrence of the following events, significant credit risk is deemed to have been transferred to third parties:

a) The originator bank has appropriately risk-sensitive policies and methodologies in place to assess the transfer of risk,

b) The originator bank has also demonstrated the transfer of credit risk to third parties in each case for purposes of the institution's internal risk management and its internal capital allocation.

(3) In addition to the requirements set out in paragraphs 1 or 2 all the following conditions shall be met for acceptance of transfer of significant credit risk to third parties:

- a) The securitisation documentation reflects the economic substance of the transaction,
- b) The securitised exposures are put beyond the reach of the originator institution and its creditors, including in bankruptcy and receivership. This shall be supported by the opinion of qualified legal counsel,
- c) The securities issued do not represent payment obligations of the originator institution,
- ç) The transferee is an SSPE and the holders of the beneficial interests in that entity have the right to pledge or exchange them without restriction.
- d) The originator bank does not have effective or indirect control over the transferred exposures. An originator bank shall be considered to have maintained effective control over the transferred exposures if it has the right to repurchase from the transferee the previously transferred exposures in order to realise their benefits or if it is obligated to re-assume transferred risk. The originator bank's retention of servicing rights or obligations in respect of the exposures shall not of itself constitute indirect control of the exposures;
- e) The securitisation contracts meets all the following conditions:
  - 1) It does not contain clauses that require the originator bank to alter systematically the underlying exposures such that the pool's weighted average credit quality is improved unless this is achieved by selling assets to third parties at market prices,
  - 2) It does not contain clauses that allow for increases in a retained first loss position or credit enhancement provided by the originator bank after the transaction's inception,
  - 3) It does not contain clauses that increase the yield payable to parties other than the originator bank, in response to a deterioration in the credit quality of the underlying exposures.
- f) Where there is a clean-up call option, conditions set out in point (2) of Article 9 shall be met.

#### **Minimum conditions on recognition of transfer of significant credit risk in synthetic securitisation**

**Article 8-(1)** Except where the Agency believes that a reduction in risk-weighted exposure amount of the originator bank cannot be explained by transfer of credit risk to third parties, in addition to the provisions of third paragraph, upon occurrence of either of the following events, significant credit risk is deemed to have been transferred to third parties:

- a) The risk-weighted exposure amounts of the mezzanine securitisation positions held by the originator bank in this synthetic securitisation do not exceed 50 % of the risk weighted exposure amounts of all mezzanine securitisation positions existing in this securitisation,
- b) In a synthetic securitisation where there are no mezzanine securitisation positions, if the originator bank can demonstrate that the exposure value of the securitisation positions that would be subject to a 1 250 % risk weight exceeds a reasoned estimate of the expected loss on the securitised exposures by a substantial margin and does not hold more than 20 % of the exposure values of the securitisation positions that would be subject to a 1 250 % risk weight.

(2) In the cases where point 1 is not applied, if the Agency believes that the reduction in capital requirement of the originator bank can be explained by the securitisation, in addition to the provisions of third paragraph, upon occurrence of the following events, significant credit risk is deemed to have been transferred to third parties:

- a) The originator bank has appropriately risk-sensitive policies and methodologies in place to assess the transfer of risk

b) The originator bank has also demonstrated the transfer of credit risk to third parties in each case for purposes of the institution's internal risk management and its internal capital allocation.

(3) In addition to the requirements set out in paragraphs 1 or 2, all the following conditions shall be met for acceptance of transfer of significant credit risk to third parties:

a) The securitisation documentation reflects the economic substance of the transaction;

b) Funded and unfunded credit protection providers shall meet conditions set out in Communiqué on Credit Risk Mitigation Techniques

c) Instruments used to transfer credit risk shall meet the conditions below;

1) Clauses such as credit protection is deemed not to be triggered even if a credit event occurs or allow for the termination of the protection due to deterioration in the credit quality of the underlying exposures that materially limit the credit protection or credit risk transference shall not be contained,

2) Clauses that require the originator bank to alter the underlying exposures to improve the pool's weighted average credit quality shall not be contained,

3) Clauses that increase the banks' cost of credit protection in response to deterioration in the pool's quality shall not be contained,

4) Clauses that increase the yield payable to parties other than the originator bank, such as investors and third-party providers of credit enhancements, in response to a deterioration in the credit quality of the reference pool shall not be contained, and

5) Clauses that provide for increases in a retained first loss position or credit enhancement provided by the originator bank after the transaction's inception shall not be contained.

ç) An opinion shall be obtained from qualified legal counsel confirming the enforceability of the credit protection in all relevant jurisdictions;

d) Where there is a clean-up call option, conditions set out in point (2) of Article 9 shall be met.

#### **Conditions on clean-up call**

**Article 9-(1)** A clean-up call option is generally used in traditional securitisations, by repurchasing the remaining securitisation positions once the pool balance or outstanding securities have fallen below some specified level. In the case of synthetic securitisations, the clean-up call may take the form of an application that extinguishes the credit protection before the maturity.

(2) In case that a clean-up call is included in a securitisation, no capital will be required due to the presence of a clean-up call if the following conditions are met:

a) The right and decision to exercise the clean-up call option shall be at the discretion of the originator bank;

b) The clean-up call option shall not be structured to avoid allocating losses to credit enhancements or other positions held by investors or otherwise structured to provide credit enhancement;

c) The clean-up call option may only be exercisable when unamortised securities are equal to or less than 10% of the original underlying exposures, or for synthetic securitisations, are equal to or less than 10% of the original reference portfolio value.

(3) In case that the clean-up call option does not meet all of the criteria stated in paragraph 2, the originator bank:

a) In a traditional securitisation, shall treat the underlying exposures as if they were not securitised,

b) In a synthetic securitisation, shall calculate risk weighted exposure amount for underlying exposures as if they did not benefit from any credit protection and were not

securitised. If there is an option that effectively terminates the transaction and the purchased credit protection on a specific date other than a cleanup call option incorporated a synthetic securitisation, the transaction shall be treated in accordance with Article 11.

(4) If a clean-up call, when exercised, is found to serve as a credit enhancement, the exercise of the clean-up call shall be considered a form of implicit support provided by the bank and must be treated in accordance with this Communiqué.

#### **Originator bank's calculation of risk-weighted exposure amounts securitised in a synthetic securitisation**

**ARTICLE 10** – (1) Upon satisfaction of the conditions set forth in Article 8 herein above, in the calculation of risk-weighted exposure amounts for underlying exposures, the originator bank shall apply the calculation methods described in Article 15 providing that the provisions of Article 11 herein below are complied with. This provision is valid for all exposures included in the pool of underlying exposures.

(2) Providing that the provisions of Article 11 herein below are complied with, the originator bank shall calculate the risk-weighted exposure amounts of all tranches of securitisation in accordance with the provisions of Article 15, also including the provisions of credit risk mitigation.

#### **Maturity mismatches between credit protection and underlying exposures in synthetic securitisations**

**ARTICLE 11** – (1) Maturity of underlying exposures shall be determined on the basis of the exposure with the longest maturity, but in any case not exceed five years. Maturity of credit protection shall be determined in accordance with the provisions of the Communiqué on Credit Risk Mitigation Techniques.

(2) Originator banks shall not take into account any maturity mismatch in calculating risk-weighted exposure amounts for tranches to be subject to a risk weighting of 1 250 % pursuant to Article 15.

(3) In the case of maturity mismatch for all other tranches the risk-weighted exposure amount shall be calculated by the following formula:

$$RA^* = [RA(MKP) \times (v - 0.25) / (V - 0.25)] + [RA(A) \times (V - v) / (V - 0.25)]$$

Where:

- a) “RA” stands for risk-weighted exposure amount,
- b) “RA(A)” stands for risk-weighted exposure amounts for exposures if they had not been securitised, calculated on a pro-rata basis,
- c) “RA(MKP)” stands for risk-weighted exposure amount determined according to first paragraph of Article 10 hereinabove, assuming that there is no maturity mismatch,
- ç) “V” stands for maturity of the underlying exposures (in years), and
- d) “v” stands for maturity of credit protection (in years).

### **SECTION THREE**

#### **Principles on Credit Assessments**

#### **Part One**

##### **Credit Assessments of CRAs**

#### **Conditions on credit assessments of CRAs**

**ARTICLE 12** – (1) The following conditions shall be met for use of credit assessments assigned by effected by an eligible CRA in calculation of risk-weighted exposure amounts pursuant to the provisions of Article 15.

a) The external credit assessment shall be determined by taking into account the credit risk with regard to all payments to be made

b) Credit assessments must be disclosed publicly. Credit assessments are considered to have been disclosed publicly only if and when they are published in a publicly accessible form and included in the transition matrix of CRA. Making credit assessments available only a limited number of relevant persons and entities are not sufficient in terms of compliance with the condition of publicizing. In addition, loss and cash-flow analysis as well as sensitivity of ratings to changes in the underlying ratings assumptions shall be published.

c) The CRA shall have a demonstrated expertise in assessing securitisations by market acceptance under the scope of the Regulation on the Principles Regarding the Authorization and Activities of Rating Agencies which is dated 17/4/2012 and Nr:28267.

ç) Credit assessments cannot be fully or partially based on unfunded support provided by the bank. In such case, the relevant position shall be treated as an unrated position.

d) The CRA shall be committed to publish explanations how the performance of pool exposures affects this credit assessment.

### **Use of credit assessments**

**ARTICLE 13** – (1) Banks may nominate more than one eligible CRA for credit assessments which shall be used in the calculation of risk-weighted exposure amount.

(2) The credit assessments made by the nominated CRAs shall be used consistently and not selectively for the securitisation positions in accordance with the following conditions,

a) Banks shall not use the credit assessments made by different CRAs for each tranche within the same securitisation structure. Banks may use credit assessments made by a CRA for all tranches.

b) In the case of two different credit assessments made by nominated CRAs for a position, the assessment leading to the higher risk weight shall be used.

c) In the case of more than two different credit assessments made by nominated CRAs for a position, out of two assessments leading to the lowest risk weight, the one which leads to a higher risk weight shall be used.

ç) The bank shall not actively solicit the withdrawal of less favourable ratings.

(3) Where a credit protection which is eligible pursuant to the Communiqué on Credit Risk Mitigation Techniques is provided directly to an SSPE, and that credit protection is taken into consideration in the credit assessment, these assessments may be used in determination of risk weights relating to securitisation positions. If the protection is provided directly to the securitisation positions rather than SSPE, credit assessment cannot be used in determination of risk weights. If the guarantee provider is not an eligible under the Communiqué on Credit Risk Mitigation Techniques, securitisation position shall be treated as unrated.

### **Mapping**

**ARTICLE 14** – (1) Credit assessments made by an eligible CRA are mapped to credit quality steps shown in the tables given in the Section One of Part Four herein below in accordance with the provisions of Article 26 of the Regulation on the Principles Regarding the Authorization and Activities of Rating Agencies.

**SECTION FOUR**  
**Principles on Risk-Weighted Exposure Amounts**

**Part One**  
**Calculation**

**Calculation of risk-weighted exposure amounts**

**ARTICLE 15** – (1) Without prejudice to the provisions of Article 24, risk-weighted exposure amount of a securitisation or re-securitisation position is, as shown in the following Table, calculated by multiplication of risk weight corresponding to the credit quality step determined in accordance with Article 14 herein above by exposure value:

Credit quality step	1	2	3	4*	5 and below
Securitisation position	20%	50%	100%	350%	1250%
Re-securitisation position	40%	100%	225%	650%	1250%

\* Only for credit assessments other than the short-term credit assessments.

(2) In the calculation of exposure value,

a) Exposure value relating to on-balance sheet securitisation position is the valued amount according to Turkish Accounting Standards amount shown in the balance sheet after deducting specific provisions set aside in accordance with Regulation on Procedures and Principles for Determination of Qualifications of Loans and Other Receivables by Banks and Provisions to be Set Aside published in the official gazette dated 1/11/2006 and No: 26333.

b) Exposure value relating to off-balance sheet securitisation positions is calculated by multiplying net amount of said exposures after deducting specific provisions, if any, set aside in accordance with Regulation on Procedures and Principles for Determination of Qualifications of Loans and Other Receivables by Banks and Provisions to be Set Aside from nominal value with credit conversion factors prescribed in this Communiqué. Unless otherwise specified, the conversion factor shall be considered as one hundred percent.

(3) Exposure value of securitisation position arising out of a derivative financial instrument, as specified in sixth paragraph of Article 5 of the Regulation, is determined within the frame of provisions of Annex-2 of the Regulation.

(4) Banks having two or more overlapping exposures in a securitisation shall to the extent that they overlap include in its calculation of risk-weighted exposure amounts only the position or portion of a position producing the higher risk-weighted exposure amounts. For this purpose, overlapping means that these exposures fully or partially represent the same risk. However, if overlapping exposures are hold by different banks, each bank shall include the whole amount of the exposure in the calculation of risk weighted exposure amount.

(5) Without prejudice to the provisions of second paragraph of Article 16 and of Articles 17 and 18 hereof, risk-weighted exposure amount of an unrated securitisation position shall be calculated by applying a risk weight of one thousand two hundred and fifty percent.

(6) Investor banks, as opposed to banks that serve as originators, holding securitisation position may use risk weights of those position in the calculation of risk weighted exposure amount if the credit assessments of those positions correspond to the credit quality step 4.

(7) Originator banks shall apply a risk weight of one thousand two hundred and fifty percent to the positions they hold if their credit quality step is lower than 3.

## **Part Two**

### **Exemptions for Unrated Securitisation Positions**

#### **Treatment for unrated securitisation positions**

**ARTICLE 16** – (1) If the most senior position in a securitisation is unrated, banks that hold or guarantee such a position may use the treatment defined in second paragraph, in the calculation of risk-weighted exposure amount for the said position, provided the composition of the pool of underlying exposure is known at all times. Banks are not required to consider interest rate or currency swaps when determining the most senior position in applying the treatment defined in second paragraph.

(2) For the unrated most senior position, average risk weight of the underlying exposures determined in accordance with the Regulation is used. In case that risk weights of underlying exposures are not be determined, a risk weight of one thousand two hundred and fifty percent is applied to unrated position.

#### **Treatment for securitisation positions in a second loss tranche or a better tranche in asset-backed commercial paper (ABCP) program:**

**ARTICLE 17** – (1) Sponsor banks may not apply a risk weight of one thousand two hundred and fifty percent for unrated securitisation positions

a) If the securitisation position is economically in a second loss position or a better position, and the first loss tranche provides significant credit enhancement to the second loss tranche,

b) If the securitisation position has a credit quality step 3 or a better level, and

c) If they do not hold securitisation position in the first loss tranche.

(2) In the case of not applying risk weight of one thousand two hundred and fifty percent for unrated securitisation positions pursuant to paragraph 1, the risk weight that is the greater of 100% or the highest risk weight to be applied to any of the underlying exposures if they were not securitised in accordance with this Communique shall be applied.

#### **Determination of Unrated Liquidity Facility's Exposure Value**

**ARTICLE 18** – (1) If the following conditions are satisfied, a credit conversion factor of fifty percent may be applied, being independent from the maturity, to the nominal amount of liquidity facility.

a) The documents relating to liquidity facility shall clearly identify the circumstances under which it may be drawn and limit these circumstances.

b) Liquidity facility shall not be drawn for compensating the losses incurred prior to drawdown of the credit such as providing liquidity for credits in default or purchasing of exposures at a price above their fair value.

c) The liquidity facility shall not be used for the purposes of permanent or regular funding for securitisation.

ç) The liquidity facility shall not be drawn after exhausting of all relevant credit enhancements.

d) Repayment of draws on the facility shall not be subordinated to receivables of investors and subject to deferral or waiver.

e) The contract relating to the liquidity facility shall include a provision that requires exposures in default will be automatically deducted from the liquidity facility or terminates the facility if the average quality of the pool falls below credit quality step 3 for the transactions where all exposures that constitute the underlying exposures pool are rated.

(2) The highest risk weights that would be applied to the underlying exposures determined by the Regulation shall be applied to the liquidity facility.

### **Cash advance facilities provided by servicer banks**

**Article 19-(1)** A 0% credit conversion factor may be applied to cash advance facilities provided by servicer banks in order to cash flow of investors are uninterrupted, provided that facilities are unconditionally cancellable and when cash advance payment is made, reimbursement is senior to other claims and rights on cash flows from the underlying pool of exposures.

## **Part Three**

### **Principles on Securitisations of Revolving Exposures with Early Amortisation Provisions**

#### **General principles**

**Article 20-(1)** When revolving exposures are securitised in such manner to contain an early amortisation clause, the originator bank calculate the risk-weighted exposure amount within the frame of provisions of this Article and articles 21, 22 and 23.

(2) For securitisation structures where securitisation positions consist of revolving and non-revolving exposures, the originator banks shall treat the portion of the underlying pool containing revolving exposures pursuant to third and fourth paragraphs hereof, articles 21, 22 and 23.

(3) In the implementation of this Article and articles 21, 22 and 23, the originator bank's interest shall be the exposure value of principal and interest collections and other cash flows of drawn amounts of exposure in exposure pool which are not available to use for payments to be made to the investors. For this purpose, the originator bank's interest shall not be subordinate to the investors' interest. Investors' interest shall be the remaining part of the pool of drawn amount of exposures.

(4) The risk-weighted exposure amount in respect of the exposure value of the originator's interest shall be calculated as that for a pro rata exposure to the securitised exposures as if they had not been securitised.

#### **Exemptions For early amortisation provisions**

**ARTICLE 21 – (1)** In securitisations performed as described below, the originator banks are exempted from the capital requirement condition mentioned in paragraph 1 of Article 20.

a) Securitisations where new exposures are not added to the underlying exposures and the early amortisation ends the ability of the bank to add new exposures

b) Securitisations of revolving exposures where no recourse to the originator bank is allowed for risks pertaining to underlying exposures

c) Securitisations where a bank securitises one or more credit lines and where investors remain fully exposed to future draws by borrowers even after an early amortisation event has occurred;

ç) Securitisations where any early amortisation provision is solely triggered by events not related to the performance of the underlying exposures or the originator bank, such as material changes in tax laws or regulations.

#### **Maximum capital requirement**

**ARTICLE 22 – (1)** For an originator bank subject to the capital requirement described in first paragraph of Article 21, if the total of the risk-weighted exposure amounts in respect of its positions in the investors' interest and the risk-weighted exposure amounts calculated under same paragraph is in excess of the greater one of the amounts specified in

subparagraphs (a) and (b) herein below, the excess amount will be subtracted from this total amount;

a) the risk-weighted exposure amounts calculated in respect of its positions in the investors' interest,

b) the risk-weighted exposure amounts that would be calculated in respect of the underlying exposures by a bank holding the exposures as if they had not been securitised in an amount equal to the investors' interest.

(2) Gains arising out of securitisation transactions and deducted from own funds in accordance with the Regulation on Own Funds of Banks shall be subtracted from the amounts mentioned in points (a) and (b) of paragraph 1 and are included in the application of paragraph 1 with their new amounts.

### **Calculation of Risk-Weighted Exposure Amounts**

**ARTICLE 23** – (1) Risk-weighted exposure amount to be calculated in accordance with paragraph 1 of Article 20 shall be determined by multiplying the weighted average risk weight that would apply to the underlying exposures if the exposures had not been securitised and the product of the exposure value of the investors' interest and the appropriate credit conversion factor that is determined in accordance with paragraphs 4 to 6.

(2) An early amortisation provision shall be considered to be controlled where the following conditions are met.

a) The originator bank shall have an appropriate capital/liquidity plan in place to ensure that it has sufficient capital and liquidity available in the event of an early amortisation.

b) Throughout the duration of the transaction, including the amortisation period, interest, principal, expenses, losses and recoveries shall be shared based on the originator bank's and investors' relative shares of the receivables outstanding at the beginning of each month.

c) The bank shall set a period for amortisation that would be sufficient for at least 90% of the total debt outstanding at the beginning of the early amortisation period to have been repaid or recognised as in default;

ç) The pace of repayment should not be any more rapid than would be allowed by straight-line amortisation over the period set out in point (c).

(3) Early amortisation provision that do not satisfy the conditions of a controlled early amortisation shall be considered as non-controlled early amortisation.

(4) In the case of securitisations that consist of retail exposures which are uncommitted and unconditionally cancellable without prior notice, and that contain an early amortisation provision, when the early amortisation is triggered by the excess spread level falling to a specified level, banks shall compare the three-month average excess spread level with the excess spread levels at which excess spread is required to be trapped.

(a) Where the securitisation does not require excess spread to be trapped, the trapping point is deemed to be 4,5 percentage points greater than the excess spread level at which an early amortisation is triggered.

(b) The credit conversion factor to be applied shall be determined by the level of the actual three month average excess spread in accordance with the Table below by considering whether the early amortisation provision is controlled or non-controlled.

<b>Three months average excess spread</b>	<b>Credit conversion factor Securitisations subject to a controlled early amortisation provision (%)</b>	<b>Credit conversion factor Securitisations subject to a non-controlled early amortisation provision (%)</b>
Above the level A	0	0
Level A	1	5
Level B	2	15
Level C	10	50
Level D	20	100
Level E	40	100

(c) In the Table in point b, the level A represents three months average excess spread levels from one hundred percent to thirteen thousand three hundred and thirty-three per ten thousands of the trapping level, and the level B represents three months average excess spread levels from seventy-five percent to one hundred percent of the trapping level, and the level C represents three months average excess spread levels from fifty percent to seventy-five percent of the trapping level, and the level D represents three months average excess spread from twenty-five percent to fifty percent of the trapping level, and the level E represents three months average excess spread under twenty-five percent of the trapping level.

(5) In all other securitisations subject to a controlled early amortisation provision of revolving exposures, a credit conversion factor of ninety percent shall be applied.

(6) In all other securitisations subject to a non-controlled early amortisation provision of revolving exposures, a credit conversion factor of one hundred percent shall be applied.

#### **Part Four Additional Provisions**

##### **Additional risk weight in transferred credit risk Application**

**ARTICLE 24** – (1) In a securitisation transaction, for a bank that is not the original lender of underlying exposures or the originator bank in order to exempt its securitisation positions from the additional risk weight imposed by paragraph 8, the original lender of underlying exposures or the originator bank shall explicitly disclose that it retain a net position in the securitisation at a level not falling below five percent permanently. For the purpose of this paragraph, upon satisfaction of any one of the following conditions, it is considered that retention requirement for 5% is met;

a) Retention of five percent of nominal value of each of the tranches sold or transferred to the investors,

b) In the case of securitisation of revolving exposures, retention of at least 5% of the nominal value of the underlying assets as the share of the originator bank,

c) Provided that the number of potentially underlying exposures is no less than 100, retention of at least 5% of the nominal value of the underlying exposures,

ç) The retention of the first loss tranche and, if necessary, other tranches having same or riskier profile than the tranches sold or transferred to investors, providing that the maturity of the retained tranches is not shorter than the maturity of tranches sold or transferred to investors, and thus, the retained position is not less than five percent of nominal value of the securitised assets,

d) The retention of a first loss exposure is not less than 5% of underlying exposures.

Net position retained is measured at the origination and shall be maintained at least 5% on an ongoing basis. It shall not be subject to any credit risk mitigation or any short positions or any other hedge. In case the retention is made subject to hedging or sold, it is accepted that the net position is not being maintained on an ongoing basis. The value of the position shall be determined by the nominal value for off-balance sheet items. Application of net position shall be made using only one of the applications cited in the sub-clauses above for each securitisation.

(2) Where a bank or a financial holding company, as an originator, securitises exposures from financial institutions which are included in the scope of supervision on a consolidated basis, the requirement referred to in paragraph 1 may be satisfied on the basis of the consolidated base. This paragraph shall apply only where financial institutions which created the securitised exposures have committed themselves to adhere to the requirements set out in paragraph 6 and deliver, in a timely manner, to the parent bank or the parent financial holding company the information needed to satisfy the requirements referred to in paragraph 7.

(3) The retention requirement referred to in the paragraph one shall not be applied in the following cases.

a) Where the underlying exposures are fully, unconditionally and irrevocably guaranteed by central governments or central banks, regional governments, local authorities or public entities, banks to which a risk weight of fifty percent is assigned under provisions of Annex-1 of the Regulation or multilateral development banks,

b) Where the underlying exposures are composed of exposures included in an index accepted in the market or of securities that are widely traded and other than securitisation positions.

(4) Before becoming exposed to the risks of a securitisation and during the period of investment, banks shall develop policies and procedures consistent with the size and riskiness of each of their individual securitisation position, and with the bank's banking and trading portfolios, and shall conduct analyses and keep records containing:

a) A statement verifying that the amount of exposures, required to be retained by the originator bank as per the paragraph one, will be held on an ongoing basis;

b) The risk characteristics of the individual securitisation position;

c) The risk characteristics of the underlying exposures with regard to individual securitisation position;

ç) The loss amount that occurred in earlier transactions of the originator bank for the relevant underlying exposure class and reputation of the bank in the market;

d) The statements and disclosures made by the originator bank about their due diligence on the securitised exposures and, where applicable, on the quality of the collateral supporting the securitised exposures;

e) The methodologies and concepts on which the valuation of collateral supporting the securitised exposures is based and the policies adopted by the originator to ensure the independence of the valuer; and

f) All the structural features of the securitisation that can materially impact the performance of the securitisation position.

Banks shall regularly perform stress tests with regard to their securitisation positions. To this end, financial models developed by CRAs may be used, provided that banks know and validate the relevant assumptions, and understand methodology.

(5) Banks shall establish formal procedures appropriate to their trading book and banking book and commensurate with the risk profile of their investments in securitised exposures to monitor on an ongoing basis and in a timely manner performance of the underlying exposures. Where relevant, the underlying exposure type, the percentage of loans

more than 30, 60 and 90 days past due, default rates, prepayment rates, loans in foreclosure, collateral type and occupancy rate, frequency distribution of credit scores or other information on credit worthiness of borrowers, industry and geographical diversification, frequency distribution of loan to value ratios with band widths that facilitate adequate sensitivity analysis shall be among the information to be monitored. Where the underlying exposures are themselves securitisation positions, banks shall have the information set out in this paragraph not only on the underlying securitisation tranches, but also on the characteristics and performance of the exposures underlying those securitisation tranches. Banks shall have information about all types of structural characteristics which may affect the performance of their securitisation positions and are unique to this securitisation, and information about the model to be used in repayments to investors and about the trigger points in this model, and information about such as credit enhancements, liquidity facilities and definition of default.

(6) Originator banks shall disclose to investors that they permanently have the net position declared in paragraph 1.

(7) Originator banks shall ensure that prospective investors have readily available access to all materially relevant data on the credit quality and as well as such information that is necessary to conduct stress tests on the cash flows and collateral values supporting the underlying exposures. Materially relevant data and information shall be determined as at the inception of the securitisation and may be widened in accordance with the qualification of the transaction thereafter.

(8) Where banks does not meet the requirements in paragraphs 1, 2, 3 or 6, an additional risk weight of 250% shall be added to risk weights specified in Section One of Part Four.

(9) Where banks does not meet the requirements in paragraphs 4, 5 or 7, the risk weight specified in Section One of Part Four shall be applied as 1250%.

(10) Originator banks shall act prudent for credit-granting to exposures to be securitised as they apply to exposures to be held on their book act in accordance with the principles in the Guideline on Credit Management of Banks. To this end the same processes for approving renewing and refinancing credits shall be applied by the originator banks.

(11) Where the requirements in paragraph 10 are not met, originator bank fails to transfer significant credit risk and originator bank obliged to continue calculating credit risk within the scope of the provisions of the Regulation for securitised exposures.

### **Application of credit risk mitigation techniques relating to securitisation positions**

**Article 25-**(1) When credit protection is provided for securitisation position, in the calculation of the risk-weighted exposure amount, an adjustment may be made in accordance with the provisions of the Communiqué on Credit Risk Mitigation Techniques.

(2) The credit risk mitigation mentioned in paragraph 1 shall be obtained for hedging the credit risk of a securitisation position rather than the underlying exposures of the securitisation transaction.

(3) When securitisation positions are hedged with funded or unfunded credit protection, the risk weight to be applied to said position may be amended in accordance with this Communique and the Communiqué on Credit Risk Mitigation Techniques.

(4) Guarantees and credit derivatives that may be taken into account in the calculation of risk weighted exposure amounts of securitisation positions shall meet the minimum operational requirements specified in paragraphs 26 to 30 of the Communiqué on Credit Risk Mitigation Techniques.

(5) Banks shall determine collaterals which they will use to hedge the credit risk of securitisation positions in accordance with the principles and procedures under the standardised approach specified in the Communiqué on Credit Risk Mitigation Techniques. Banks may recognise collateral pledged by SSPE.

(6) Credit protection provided by the entities listed in Article 13 of the Communiqué on Credit Risk Mitigation Techniques may be recognised to hedge from the credit risk of securitisation positions. Guarantees provided by SSPEs shall not be recognised.

(7) Capital requirements for the guaranteed or protected risks shall be calculated according to provisions in articles 28, 53, 54 and 55 of the Communiqué on Credit Risk Mitigation Techniques.

(8) A maturity mismatch shall be taken into account within the frame of articles 57, 58, and 59 of the Communiqué on Credit Risk Mitigation Techniques in the calculation of risk weighted exposure amount. When the exposures being hedged have different maturities, the longest maturity shall be used.

## **SECTION FIVE**

### **Miscellaneous and Final Provisions**

#### **The communiqué abolished**

**ARTICLE 26-** (1) The Communiqué on the Calculation of Risk Weighted Exposures Related to Securitisation published in the Official Gazette dated Nr. 28337 dated June 28, 2012 is hereby abolished.

(2) References made to the Communiqué in paragraph 1 are considered to make this Communiqué.

#### **Effective date:**

**ARTICLE 27** – (1) This Communiqué shall enter into force on 31/03/2016.

#### **Enforcement:**

**ARTICLE 28** – (1) The provisions of this Communiqué will be executed by the Chairman of the Banking Regulation and Supervision Agency.